



# Sparebanken Sør

Investor presentation Q4 2021

# Agenda

- **About Sparebanken Sør**
- **Financial highlights**
- **Funding status**
- **Capital**
- **Upskilling and digital investment**
- **Sustainability**
- **Goals and expectations**



**SPAREBANKEN SØR**

# Sparebanken Sør

## - a leading financial institution in Southern Norway



Established in 1824,  
579 employees



180 000 retail  
customers



Financial Group with  
banking, securities and  
real estate brokerage



22 000 corporate  
customers



Publicly traded and  
community-owned



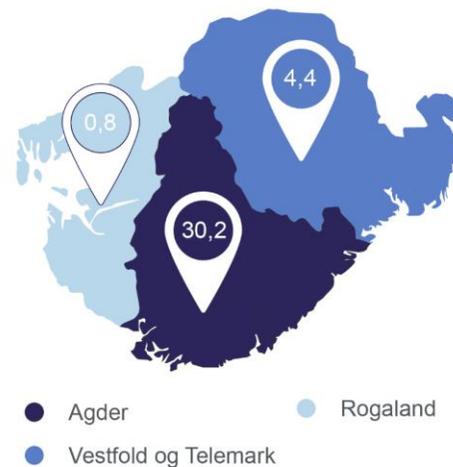
Regional Branches &  
nationwide online services



- Total assets of NOK 144 bn
- Q4-2021 profit after tax of NOK 328 million
- Cost-income ratio of 39.3%



Retail market share by county\*

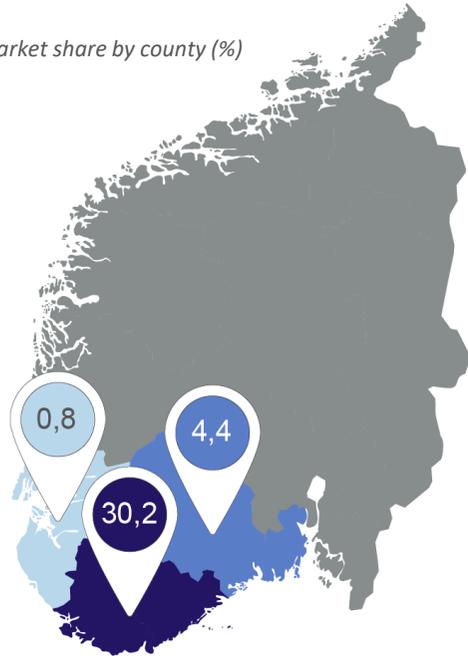


\* Market share retail customers (Source: Eiendomverdi AS)

# A leading mortgage lender in Southern Norway

## Maintaining a high market share

Market share by county (%)



The bank has maintained its # 1 position in Agder, and a strong position in Vestfold og Telemark. Market shares in Rogaland are increasing.

## The increase in house prices has continued

House price growth\*

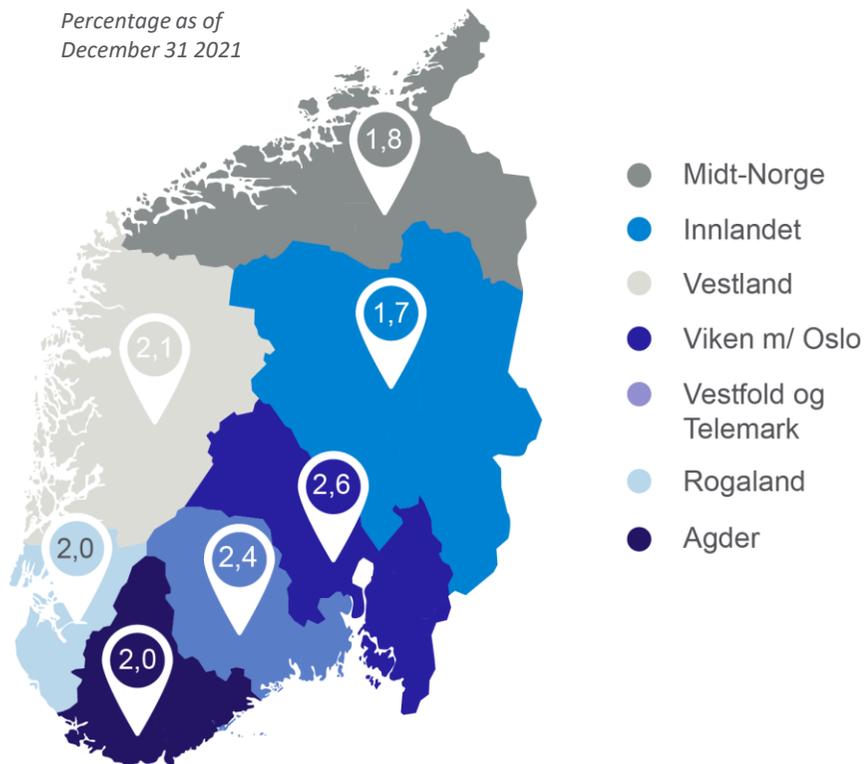


\*3-month moving average of 12-month change

# Regional labour market developments

## Unemployment rates

Percentage as of  
December 31 2021



## Employment growth

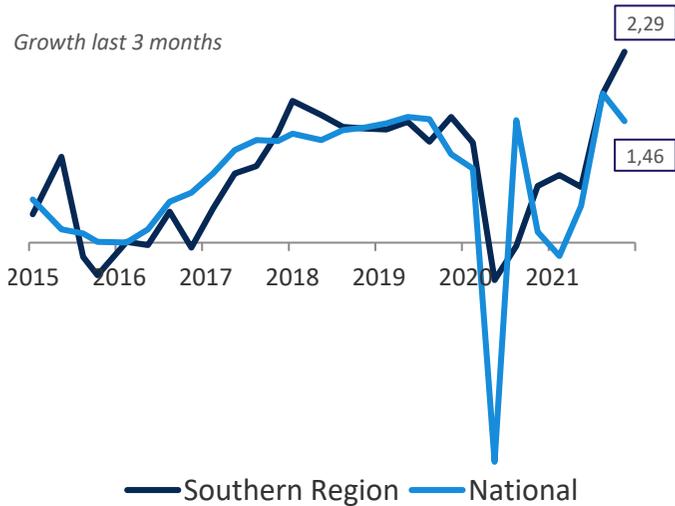
Percentage growth last 3 months



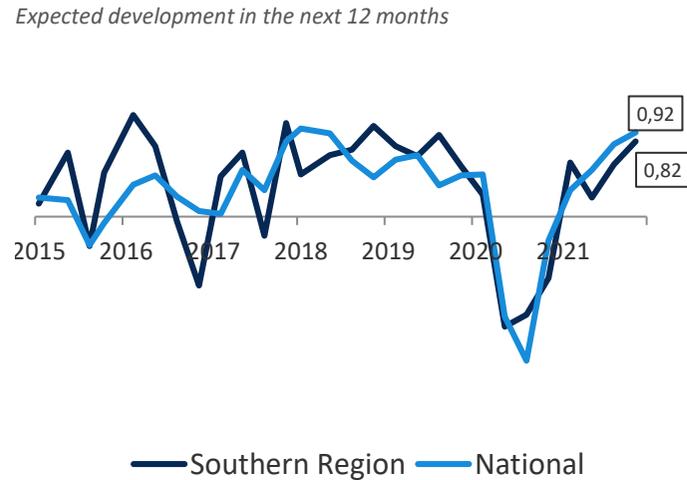
The index ranges from -5 to +5, where -5 indicates a large fall and +5 indicates strong growth. The index are compiled quarterly by Norges Bank through their regional network and shows the development in the Southern Region, which consists of Agder, Vestfold and Telemark.

# Regional production and investment growth

## Production growth



## Investment growth



The indices ranges from -5 to +5, where -5 indicates a large fall and +5 indicates strong growth. The indices are compiled quarterly by Norges Bank through their regional network and show the development in the Southern Region, which consists of Agder, Vestfold and Telemark.

# Financial highlights



SPAREBANKEN SØR

## Strong growth in net interest income and net commission income in Q4

- Increased income from associated companies
- Very low losses on loans
- Cost-income ratio below 40 percent, and 36 percent in the banking business
- Solid growth in profit from ordinary operations
- Return on equity after tax of 9.4 percent
- Common equity tier 1 (CET1) ratio of 16.4 percent
- Leverage Ratio of 9.4 percent

NOK million	2021 Q4	2020 Q4	Change
Net interest income	506	467	39
Net commission income	124	97	27
Net income from financial instruments	-26	37	-62
Associated companies	66	57	9
Other operating income	10	2	8
Total income	<b>682</b>	<b>659</b>	<b>22</b>
Total expenses	268	260	8
<b>Profit before losses on loans</b>	<b>414</b>	<b>399</b>	<b>14</b>
Losses on loans, guarantees	2	-30	32
<b>Profit before tax</b>	<b>412</b>	<b>430</b>	<b>-18</b>
Tax expense	83	90	-7
<b>Profit for the period</b>	<b>328</b>	<b>339</b>	<b>-11</b>

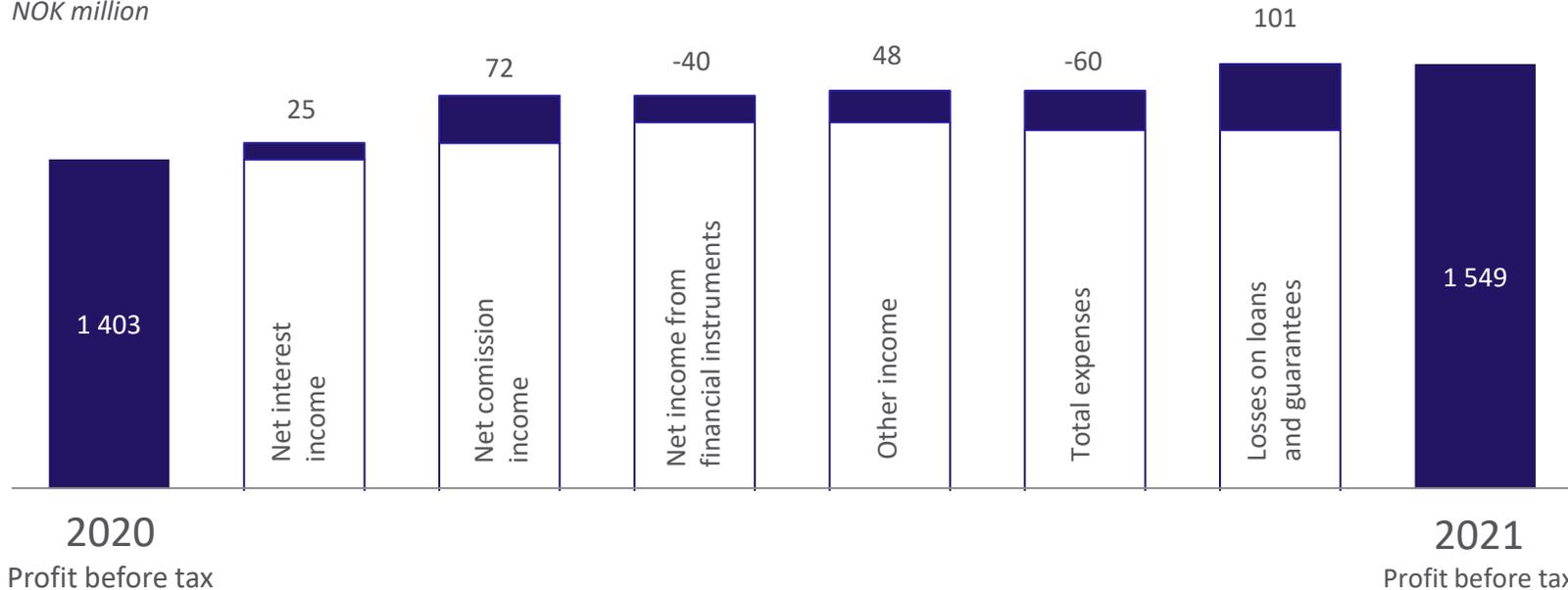
# Very good profit development in 2021

- Strong growth in net interest income and net commission income
- Strong results from Frende, Brage and Sørmeglere
- Net entry on losses on loans
- 12-month lending growth of 4.5 percent
- 12-month deposit growth of 5.5 percent.
- Return on equity after tax of 9.0 percent
- The Board of Director's will propose a dividend distribution of NOK 8.0 per equity certificate

NOK million	31.12.2021	31.12.2020	Change
Net interest income	1 939	1 914	25
Net commission income	419	347	72
Net income from financial instruments	0	40	-40
Associated companies	174	136	38
Other operating income	17	7	10
<b>Total income</b>	<b>2 549</b>	<b>2 444</b>	<b>105</b>
Total expenses	1 018	958	60
<b>Profit before losses on loans</b>	<b>1 531</b>	<b>1 486</b>	<b>45</b>
Losses on loans, guarantees	-18	83	-101
<b>Profit before tax</b>	<b>1 549</b>	<b>1 403</b>	<b>146</b>
Tax expense	323	307	16
<b>Profit for the period</b>	<b>1 226</b>	<b>1 096</b>	<b>130</b>

# Decomposition of changes in profit before tax

NOK million



# Profit and returns

NOK millions

## Operating expenses



## Profit from ordinary operations<sup>1)</sup>



## Return on equity

Return on equity excl. Financial instruments and non-recurring events<sup>3)</sup>



## Cost to income ratio

Cost to income ratio for banking operations

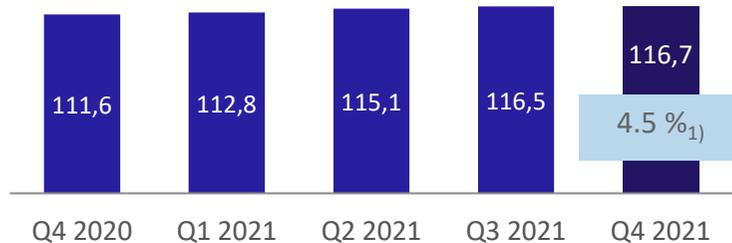


- 1) Net interest income + Net commission income + Other operating income – Operating expenses +/- one-off items
- 2) Changes from the corresponding prior-year period
- 3) Return on equity excl. accounting effects from financial instruments and one-off items and incl. interest on hybrid capital
- 4) Operating expenses in the banking operations increased by 4.3% YTD compared to YTD last year

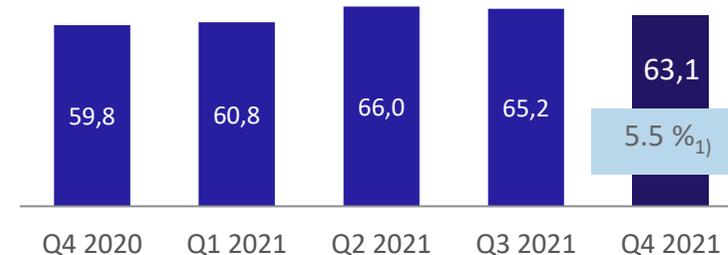
# Lending and deposit growth

NOK billions

## Net loans



## Deposits



- **12-month growth of 4.5 %**

- 12-month growth in gross loans of 5.3 % for retail customers and corporate customers of 3.0 %

- **Annualized quarterly growth of 0.4 %**

- 3.7 % for retail customers and -1.5 % for corporate customers

Lending to corporate customers fell as a result of expected repayments of some major construction projects.

- **12-month growth of 5.5%**

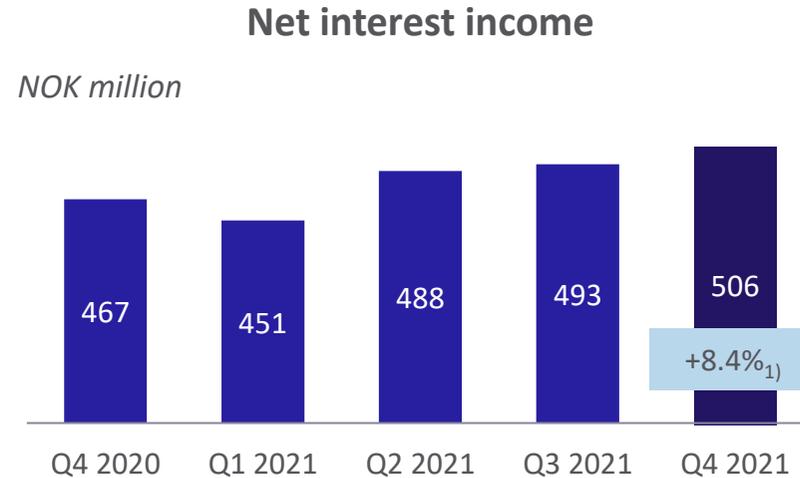
- 12-month growth in deposits for retail customers of 4.5% and corporate customers of 6.6%

- **Deposits as share of net loans of 54.1%, up from 53.6 %**

1) Changes from the corresponding prior-year period

# Increased net interest income

- Healthy deposit and lending growth
- Reprising of some deposit products
- Announced interest rate changes – estimated at NOK 135 million annually with effect from mid-November 2021 and NOK 80 million annually with effect from the beginning of February 2022.



1) Changes from the corresponding prior-year period

# Increased deposit margins and reduced lending margins

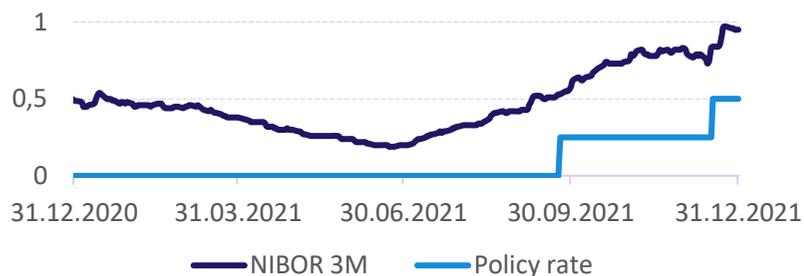
## Loan margins (%)



## Deposit margins (%)



## NIBOR 3M development

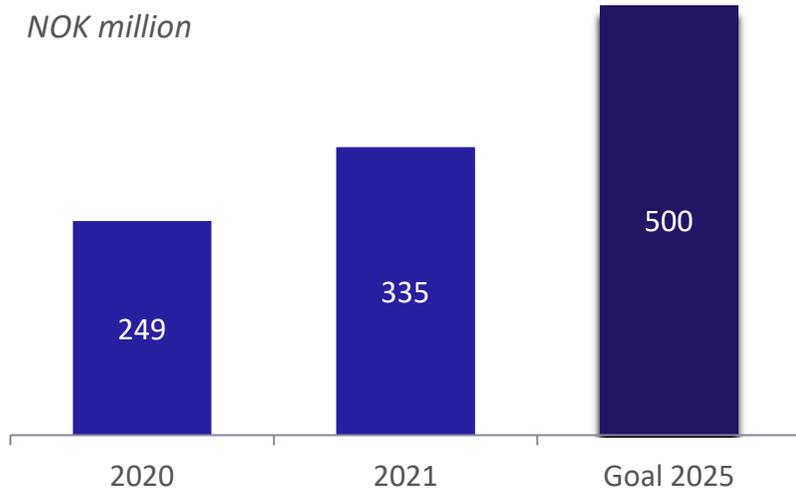


## Interest margin<sup>1)</sup> (%)



1) Interest margin is the average lending rate minus the average deposit rate

# Strong growth in other income



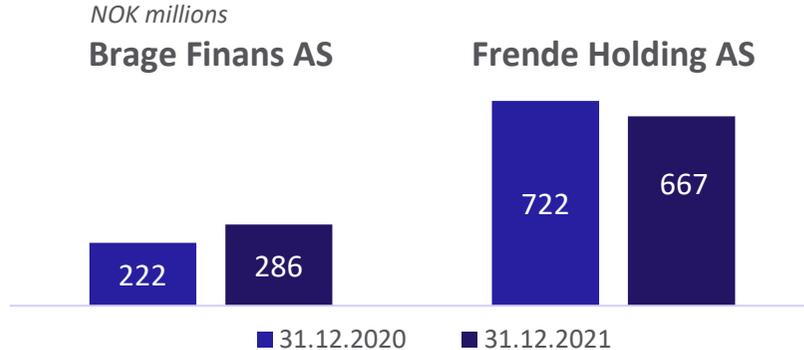
Other income	2020	2021	Goal 2025
Net commission income 1)	61	91	130
Income from Sør Markets	27	36	55
Income from wholly and partly owned companies	161	209	315
<b>Sum</b>	<b>249</b>	<b>335</b>	<b>500</b>

1) Net commission income from securities trading, insurance, credit intermediation and leasing

# Strong return on equity from Frende and Brage



## Profit before tax



## Effect on results after consolidation

NOK millions		Q4 2021	Q4 2020	31.12.2021	31.12.2020
Frende forsikring (21,0 %)	Share of profit	32,5	52,2	109,9	116,2
	Amort.	-5,4	-5,4	- 20,9	-20,9
Brage finans (20,8 %)	Share of profit	10,6	9,7	46,3	32,7

In 2021, Frende Holding AS achieved a return on equity of 29.4 percent

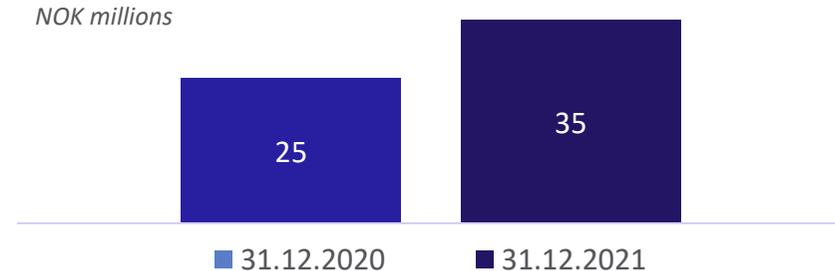
In 2021, Brage Finans AS achieved a return on equity of 11.4 percent

# An excellent profit contribution from Sørmeglere



- The leading real estate agency in Southern Norway
- Brokers more than a third of housing in Southern Norway
- Strengthens position in Vestfold and Telemark with new offices in Kragerø and Sandefjord
- Investment in commercial property brokerage

## Profit before tax

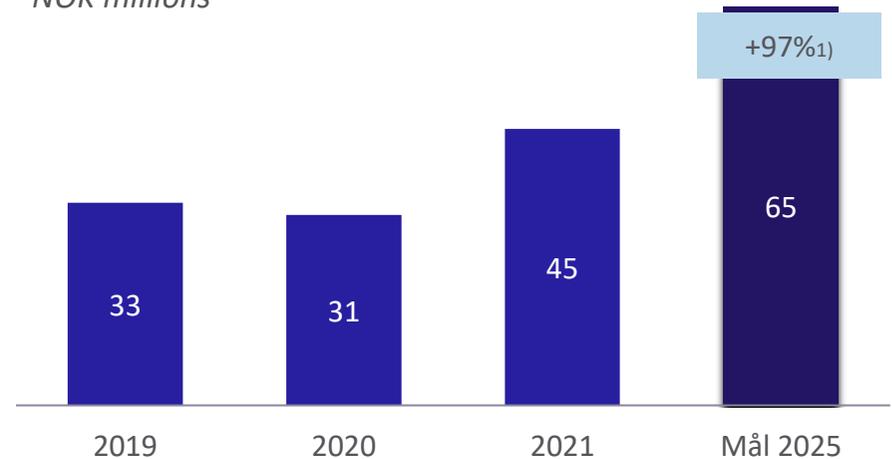


## Strong development and increased investment in insurance

- In July, the bank acquired 78 percent ownership of Sørlandet Forsikringscenter AS, with an option to purchase the remaining shares
- Through the acquisition, the bank received an insurance portfolio of NOK 110 million
- With this, the bank has strengthened the insurance sales force
- The ambition is to increase income from insurance by 100% from 2020 to 2025

### Commission income insurance

NOK millions

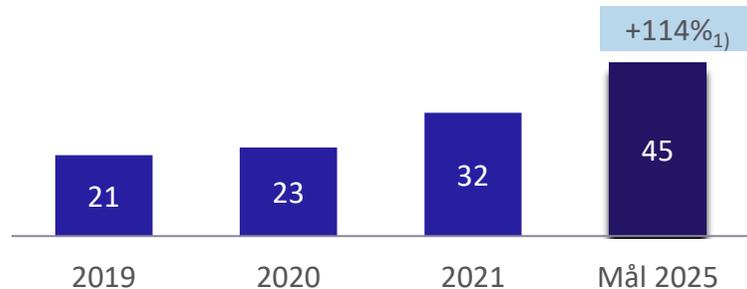


1) Increase from 2019 in the strategy period 2020-2025

# Savings agreements

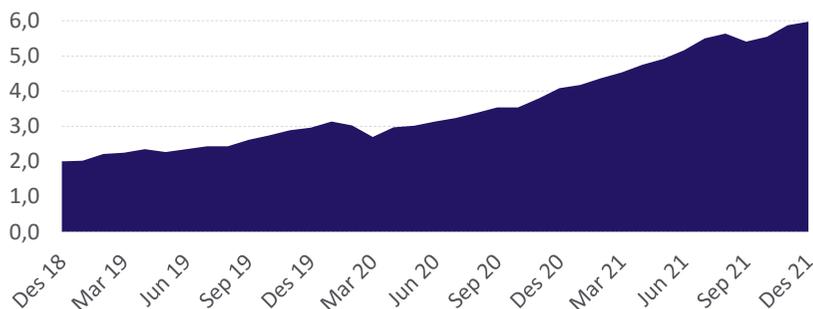
## Commission income from mutual funds

NOK millions



## Savings agreements volumes

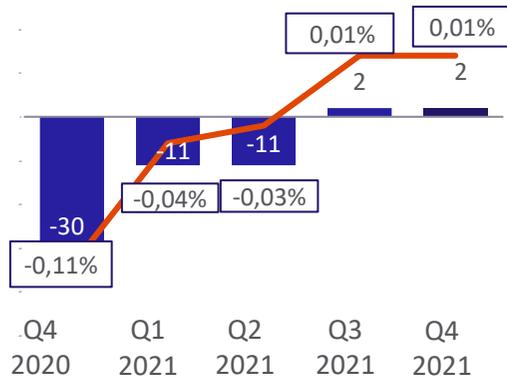
NOK billions



- Increased focus on Norne Fondsportal
- Strong growth both in the number of savings agreements, and the amounts saved through these agreements
- Portfolio growth of over 45 % YTD
- The ambition is to increase commission income from mutual funds by 100% in the period 2020-2025

# Very low losses and continued decrease in non-performing loans

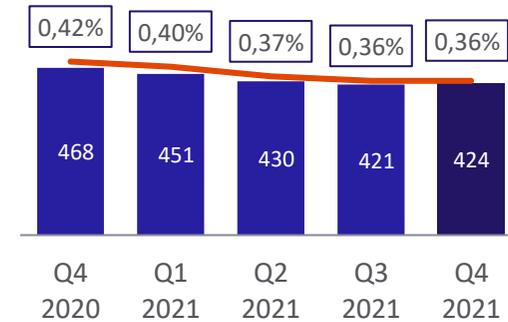
Development in losses in NOK million and as a percentage of gross loans (annualised)



Development in non-performing loans (IFRS 9, step 3) in NOK million  
Ans as a percentage of gross loans 1)



Development in loss provisions in NOK million and as a percentage of gross loans

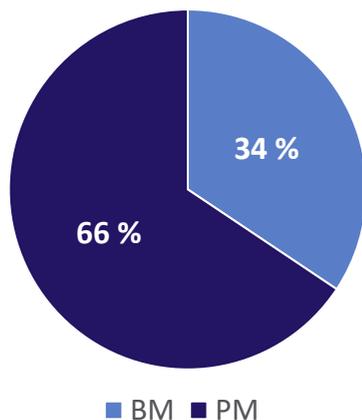


1) A new definition of non-performing has been applied from 1 January 2021.

# A well-diversified loan portfolio with low risk

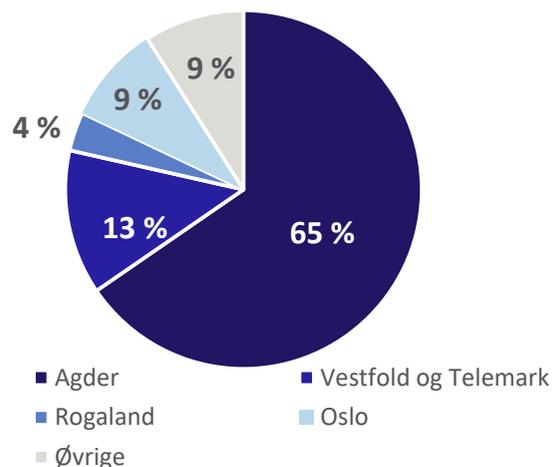
## RM/CM distribution

Gross loans

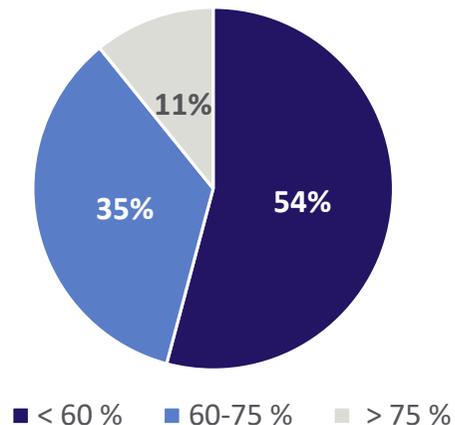


## Geographical distribution

Gross loans

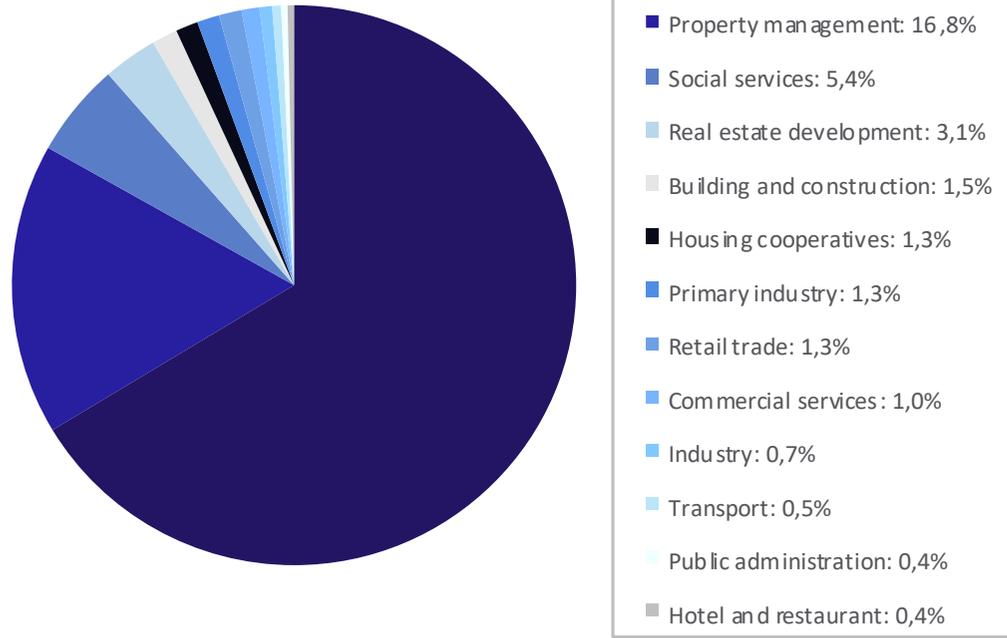


## Loan-to-Value (Group)



- Average loan-to-value of c.56% for mortgages (group).
- 89 percent of mortgages within 75% of loan-to-value.
- NOK 49.7 billion have been transferred to Sparebanken Sør Boligkreditt AS, equivalent to 64 percent of total loans to the retail market

# High RM share and diversified CM portfolio



# Positive earnings development in Q4

## Results

Positive development in net interest income, very good profit contributions from Frende, Brage and Sørmeglere. Very low losses on loans.

## Funding and capital

Common equity tier 1 capital ratio of 16.4 percent and solid leverage ratio of 9.4 percent. Solid financing structure and good liquidity buffers.

## Growth

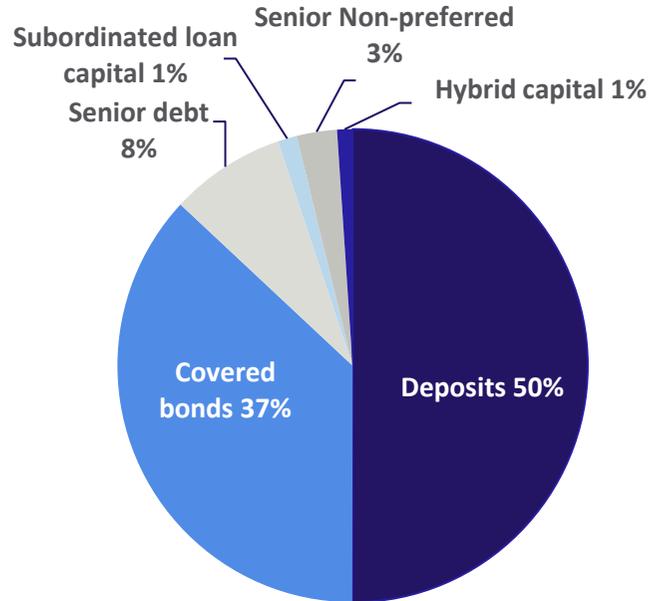
12-months growth in lending of 4.5 percent.  
12-months growth in deposits of 5.5 percent.

## Summary

Good profit from ordinary operations give a profit before tax of NOK 412 million and a return on equity of 9.4 percent in Q4 2021.

# Funding status

# Solid and diversified financing structure



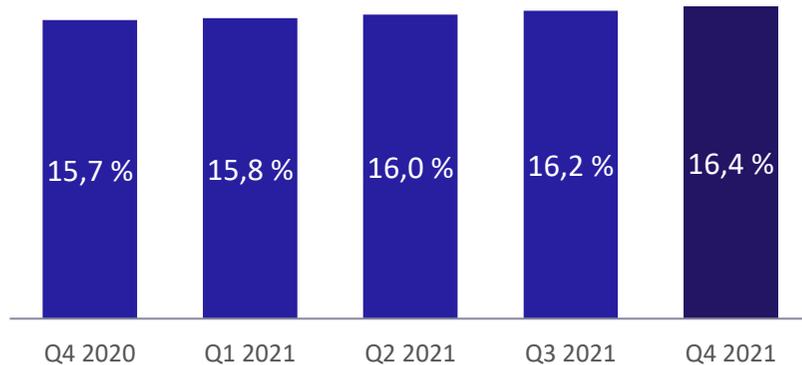
Deposits are a valuable source of funding.

- Deposits as a percentage of net loans at 54.1 percent
- Good access to funding from domestic and international funding markets
- More than 60 percent of the covered bonds are issued in euro
- Sparebanken Sør issued NOK 1.5 billion of SNP in 2021
- Sparebanken Sør is rated A1 by Moody's
- Sparebanken Sør Boligkreditt's covered bonds are rated Aaa by Moody's

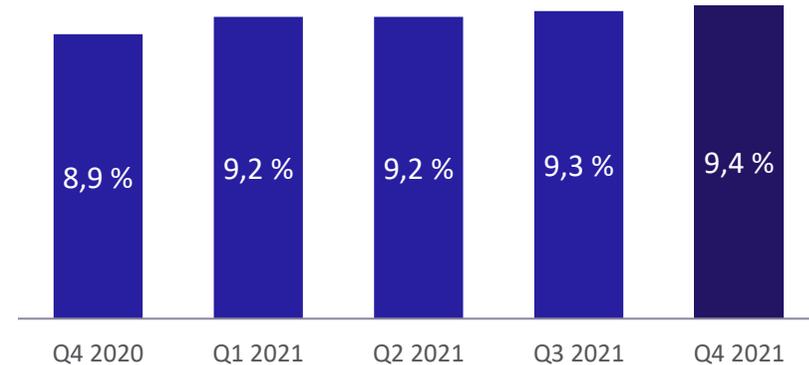
# Capital

# The bank is well capitalised

## Common equity tier 1 capital ratio



## Leverage ratio

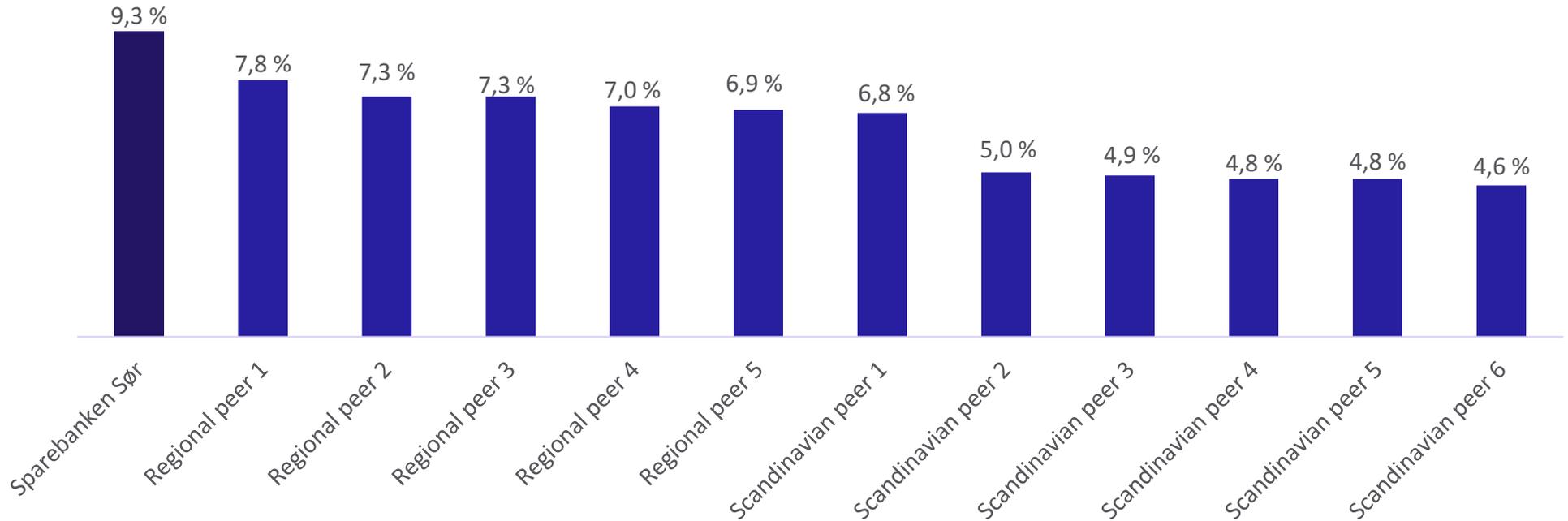


- Well above the current capital requirement (CET1) of 13 percent.
- Based on the bank's estimates, it is expected that the new standard method will have a positive effect on CET1 in the range of 1.5-2.5 percentage points in 2025. The IRB application is expected to be sent by the end of 2023 and is expected to have an effect from 2025. The capital effects are expected to be at the same level as the new standard method.

# A high leverage ratio

30.09.2021

Leverage ratio

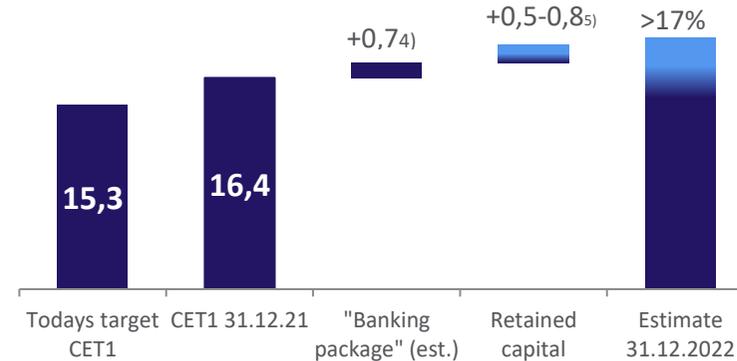


# Well positioned for higher capital requirements

## Capital requirements

	Applicable requirements	Requirements 31.12.2022
Minimum Tier 1 Capital Requirements	4,5 %	4,5 %
Conservation buffer	2,5 %	2,5 %
Systemic Risk Buffer <sup>1)</sup>	3,0 %	4,5 %
Counter-cyclical Buffer <sup>2)</sup>	1,0 %	2,0 %
Pillar-2 requirements	2,0 %	1,8 %
<b>CET1 requirements</b>	<b>13,0 %</b>	<b>15,3 %</b>
Pillar-2 Guidance <sup>3)</sup>	0%	1,0 %
<b>CET1 requirements Incl. P2G</b>	<b>13,0 %</b>	<b>16,3 %</b>

## Capital adequacy and target figures



1) The Ministry of Finance has decided on a transitional rule on capital requirements for banks that use the Standardised Approach, resulting in an increase in the Systemic Risk Buffer from 3 to 4.5% from 31 December 2022.

2) The Counter-cyclical Buffer will increase with 1.0 percentage points in 2022 and might increase with a further 0.5 percentage points.

3) Preliminary assessment from FSA related to P2G

4) Estimated of effects of the «Banking package»

5) Capital building based on retained capital

# Application for IRB approval to be sent by end-2023

- The Bank plans to send an application for IRB-F approval by the end of 2023.
- The Financial Supervisory Authority of Norway (FSA) is expected to spend at least 1 year processing an application.
- Significant deliveries in the project have been completed and taken into use.
- It is expected that the capital effects of IRB-F will have effects at the level of the new standard method. The effect of the new standard method is estimated to increase CET1 capital ratio in the range 2.0 - 2.5 %.
- The Bank considers that an IRB approval contains key elements that are important for the bank's future development.

# Upskilling and digital investments

## Changing customer behaviour



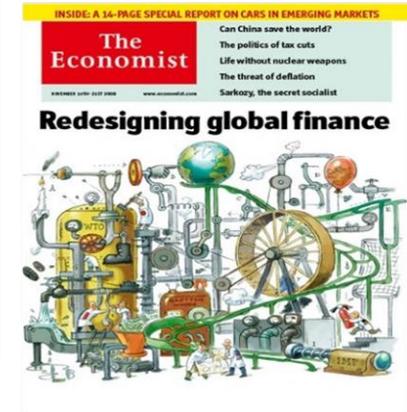
## Technological quantum leaps



## Climate change and sustainability



## Higher demands from financial regulation



# Changes in staff skills and backgrounds from 2018 to 2021

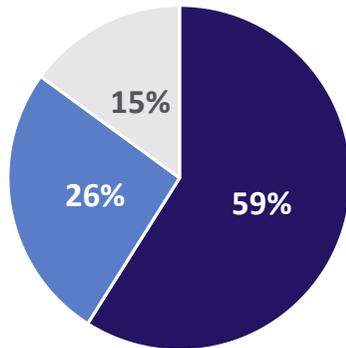
Fewer with a banking background  
Fewer customer service representatives

More with higher education  
More specialists

**Anti-money laundering**  
**Sustainability**  
**IT**  
**CRM**  
**Database**  
**ETL**  
**Service design**  
**Digitization**  
**Compliance**  
**Modeling**  
**Law**  
**UX**  
**Analysis**  
**Cyber security**

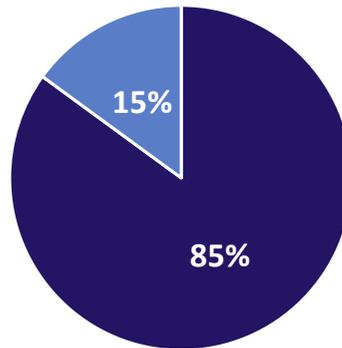
# Up- and reskilling

Staff changes 2014-2021



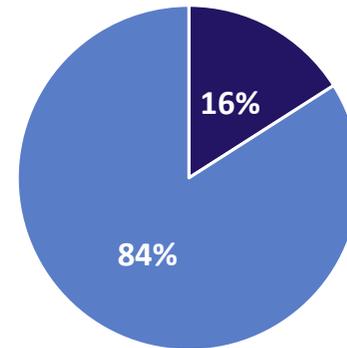
- Unchange
- Competence shift
- Workforce reductions

Leavers (2018-2021)



- Other competence
- Completed bachelor / master

New joiners (2018-2021)



- Other competence
- Completed bachelor / master

## Data



- ✓ Sales based on machine learning
- ✓ Development of credit models
- ✓ Systematic work with increased data quality

## Digitization



- ✓ Digital self-service loan portal
- ✓ Success with digital savings guide
- ✓ Invoice scanner and ID check

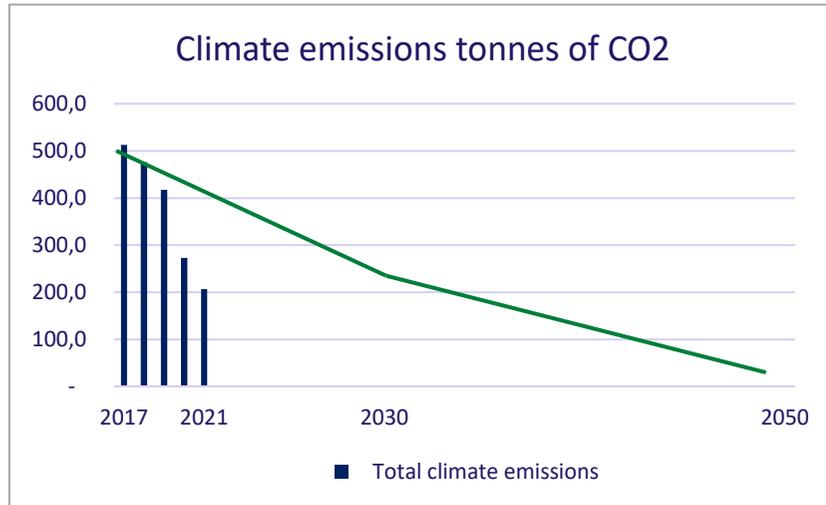
## Security



- ✓ ISMS: prevent, detect and act
- ✓ Competence development for customers
- ✓ Public information in the region

# Sustainability

# Ambitious targets for reduced climate emissions



## Own climate emissions



55 % reduction in 2030  
Zero emissions (NZE) in 2050

## Climate emissions from lending and investments



40 % reduction in 2030  
Zero emissions (NZE) in 2050

# Sustainability and ESG

Reduction of our carbon footprint

ESG in credit processes

Climate emissions in the loan portfolio

Green products and bonds

Local commitment to sustainability

A global perspective

## News in Q4 2021

- ✓ Climate accounts for 2021 show a reduction in emissions
- ✓ Target of 40% reduction in emissions from the RM and CM portfolio by 2030
- ✓ Green, social and sustainable product framework
- ✓ Recertified in gender equality and diversity
- ✓ Member of PCAF (Partnership for Carbon Accounting Financials)

# Top ratings on sustainability

ESG Risk Rating

**11.7**

Updated Aug 20, 2021

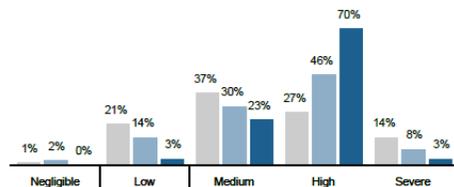
Not available

Momentum

**Low Risk**



ESG Risk Rating Distribution



ESG Risk Rating Ranking

UNIVERSE	RANK	PERCENTILE
	(1 <sup>st</sup> = lowest risk)	(1 <sup>st</sup> = lowest risk)
Global Universe	313/13593	3rd
Banks INDUSTRY	31/1006	4th
Regional Banks SUBINDUSTRY	4/410	2nd

What a good ESG rating means for Sparebanken Sør

Independent and transparent ESG assessment

Requirements and expectations from investors

Our own social responsibility



# Green & Sustainability Bond Framework 2022

## - EU Taxonomy Aligned -

- Update of the 2019 framework:
  - Tightening of green criteria in line with best market practice
  - EU Taxonomy alignment
- Well established Green and Social project categories: Green buildings, healthcare and education
- Following the 2021 ICMA Green Bond Principles, Social Bond Principles and the Sustainability Bond Guideline

### Positive Second Party Opinion from Sustainalytics:

*“Sustainalytics is of the opinion that the Sparebanken Sør Green & Sustainability Bond Framework is credible and impactful, and aligns with the four core components of the GBP, SBP and SBG”.*

*“Sustainalytics has assessed the Sparebanken Sør Green & Sustainability Bond Framework for alignment with the EU Taxonomy, and is of the opinion that the Framework’s green eligibility category (which maps to one EU activity) aligns with the applicable technical screening criteria (TSC) in the EU Taxonomy, and aligns with the do no significant harm (DNSH) criteria.”*

**Green & Sustainability Bond Framework**

Through issuing Green & Sustainability Bonds, Sparebanken Sør intends to contribute to the development of the green & sustainability bond market while highlighting its Sustainability Strategy to capital markets participants. In addition, Green/Sustainability Bonds will help to diversify Sparebanken Sør's investor base and to broaden dialogue to existing investors.

This Green & Sustainability Bond Framework is based on the Green Bond Principles, Social Bond Principles as well as Sustainability Bond Guidelines, all published by the International Capital Markets Association in their most recent iteration (2021). The framework enables Sparebanken Sør and the independent covered bond institute Sparebanken Sør Boligkreditt to issue a variety of bond formats, including, but not limited to Senior Preferred Bonds, Senior Non-Preferred Bonds and Covered Bonds. These and other formats can be issued as different bond types, such as Green or Sustainability Bonds. The variety of different formats and types will be referred to as Green & Sustainability Bonds throughout this document.

**EU taxonomy alignment**

Sparebanken Sør welcomes the increased clarity and structure which the EU taxonomy and related regulations bring to the sustainable finance market. Appreciating the comprehensive scope of current and upcoming EU regulation within the space of sustainable finance, the bank has decided to be an early adopter and to align this framework with the EU Taxonomy to the degree feasible.

The alignment of the framework with the EU taxonomy has been assessed by Sustainalytics. The framework is found to be:

- ✓ Aligned with relevant Technical Screening Criteria
- ✓ Aligned with relevant Do No Significant Harm criteria
- ✓ Aligned with Minimum Social Safeguards

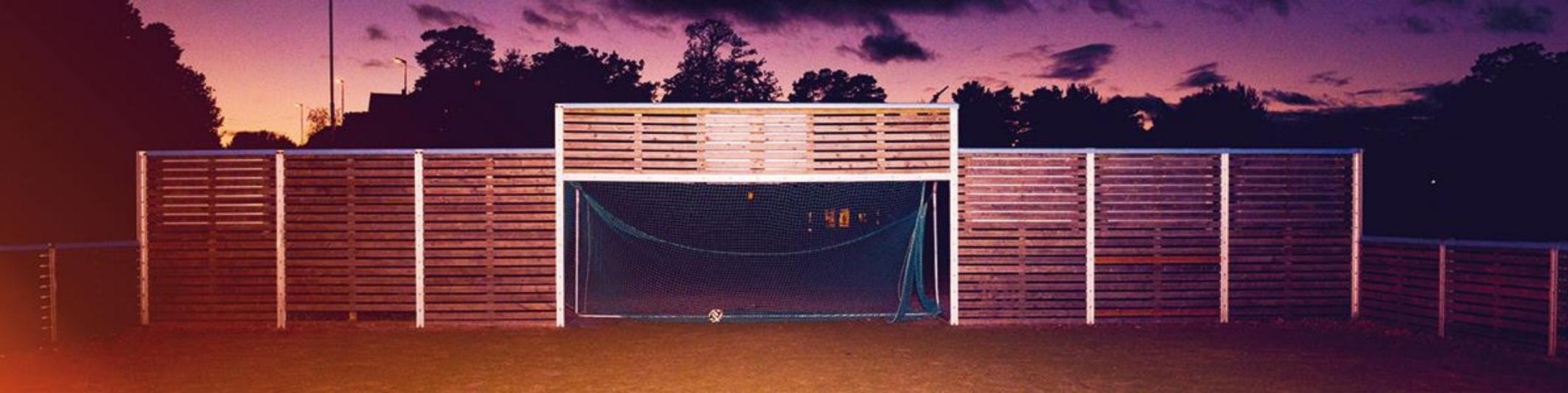
**SUSTAINALYTICS**  
**SECOND-PARTY OPINION**

**11 SUSTAINABLE CITIES AND COMMUNITIES**

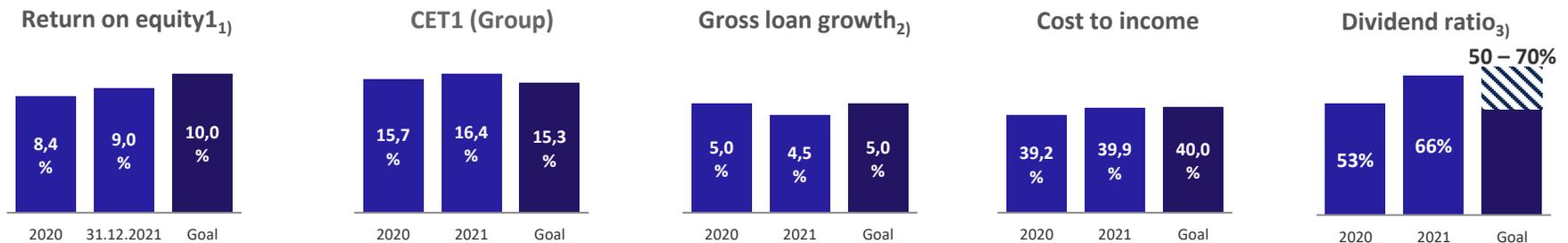
**3 GOOD HEALTH AND WELL-BEING**

**4 QUALITY EDUCATION**

# Goals and expectations



# Financial key figures and goals



1) The group has a long-term ambition of return on equity of minimum 10% within 2025.

2) The group has a target of a lending growth of 6% for retail customers and 3% for corporate customers in 2022. The long-term ambition is a lending growth in excess of credit growth (K2 + 1%). The group's lending growth in the last 12 months was 5.3 for retail customers and 3.0 for corporate customers.

3) A dividend of NOK 14.0 was decided for 2020, which included a withheld dividend of NOK 8 for 2019 and NOK 6 for 2020. The Board will propose a dividend of NOK 8.0 per equity certificate for 2021.

# Positive future prospects

Strong market position in attractive region

Significant growth in other income

Low risk and low complexity

Strong leverage ratio

Solid sustainability profile

Good risk-adjusted return on equity

# Appendix

# Equity certificate owners

20 largest equity certificate owners as of 31.12.2021

	Name	Number of Ecs	Share of Ecs %		Name	Number of Ecs	Share of Ecs %
1	Sparebankstiftelsen Sparebanken Sør	7.988.679	51,00	11	Ottersland AS	100.000	0,64
2	EIKA utbytte VPF c/o Eika kapitalforv.	746.259	4,76	12	DNB Luxembourg S.A	100.000	0,64
3	Pareto Invest AS	417.309	2,66	13	MP Pensjon PK	85.523	0,55
4	Drangslund Kapital AS	302.107	1,93	14	Lombard Int Assurance S.A	82.131	0,52
5	Glastad Capital AS	266.348	1,70	15	Geir Bergskaug	75.691	0,48
6	Wenaasgruppen AS	186.000	1,19	16	Catilina Invest AS	73.237	0,47
7	Hamjern Invest AS	180.513	1,15	17	Apriori Holding AS	72.575	0,46
8	Gumpen Bileiendom AS	174.209	1,11	18	Alf Albert	72.297	0,46
9	Allumgården AS	151.092	0,96	19	Gunnar Hillestad	71.000	0,45
10	Gjensidige Kommunal Landspensjonskasse	119.000	0,76	20	Varodd AS	70.520	0,45
	<b>Total 10 largest owners</b>	<b>10.619.676</b>	<b>67,80</b>		<b>Total 20 largest owners</b>	<b>11.458.340</b>	<b>73,15</b>

- AS of 31 December 2021, 15 663 944 ECs of NOK 50 each had been issued
- Profit (Group) per EC amounted to NOK 3.2 in Q4 2021 and 12.2 NOK per EC in 2021
- The ownership ratio 31.12.2021 was 15.7 percent

# SOR – share price and liquidity

## Change in share price at 31.12.2021

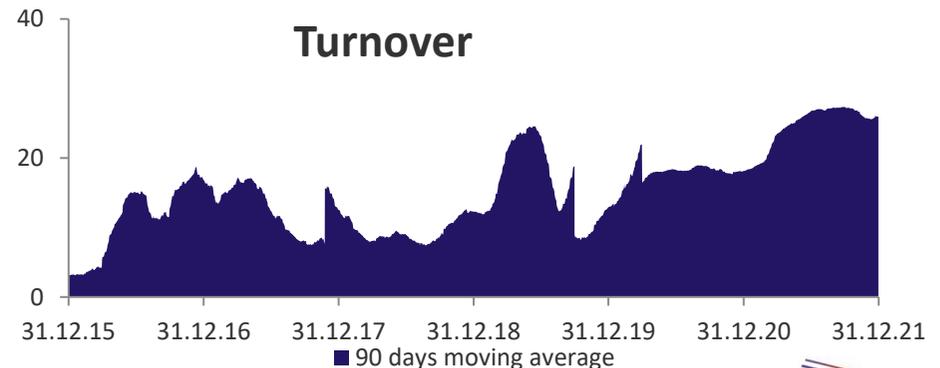
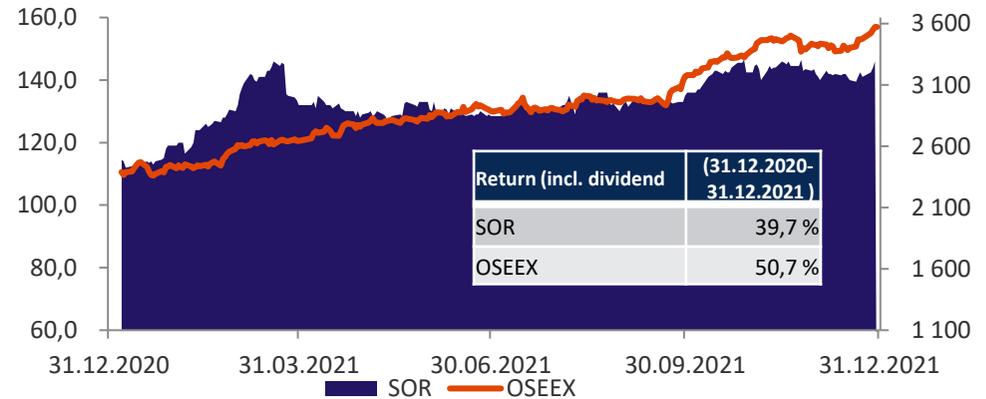
- The share price for SOR was NOK 146,0 and book value was NOK 136.4, amounting to a price-to-book ratio of 1.07.
- The equity certificates gave a return of 39.7 % last 12 months
- Profit per equity certificates 31.12.2021 of NOK 12.2, which represents a P/E of 12.0

## Turnover

- Turnover of 2.2 mill. equity certificates last 12 months.
- 15 663 944 total issued, and an EQ rate of 16.0%.

## Dividend

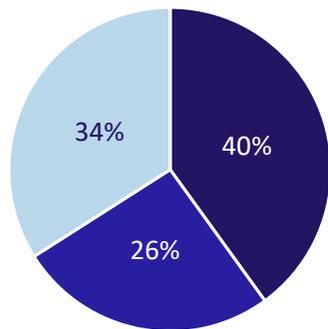
- The Board will propose to distribute a dividend of NOK 8.0 per equity certificate for 2021.
- 50-70% percent of equity certificate holders` share of annual profits
- Sparebanken Sør`s capital requirements will be taken into consideration when determining the annual dividend.



# Sparebanken Sør Boligkreditt

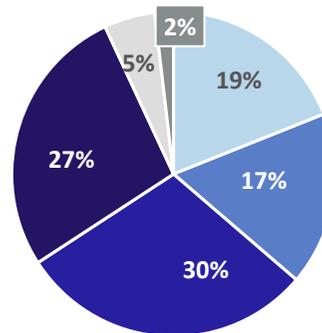
- Wholly owned by Sparebanken Sør

Wholly owned by Sparebanken Sør



■ Sparebanken Sør Boligkreditt AS ■ RM bank ■ CM

Sparebanken Sør Boligkreditt LTV distribution

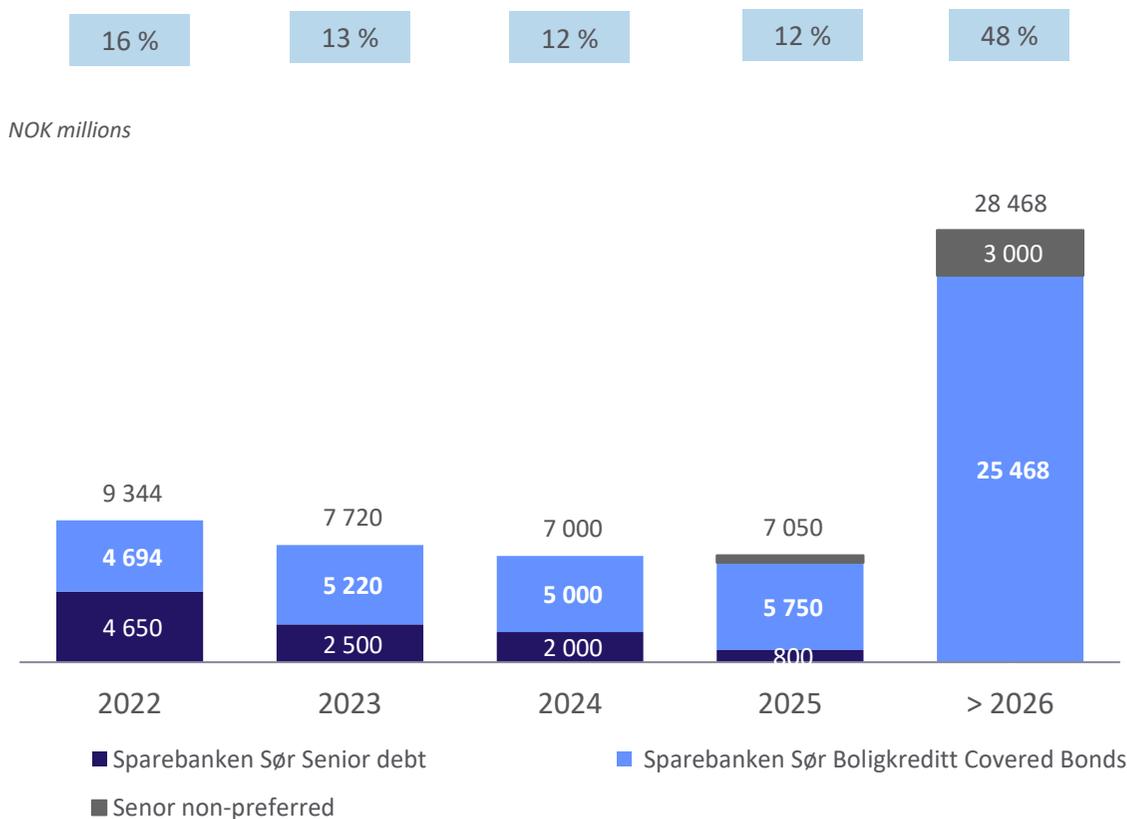


■ < 40 % ■ 41 - 50 % ■ 51 - 60 % ■ 61 - 70 % ■ 71 - 75 % ■ > 75 %



■ Weighted avg. LTV ■ Nominell OC

# Funding profile



- The Group's total funding amounted to NOK 59.6 Bln
- Covered bonds amounted to NOK 46.1 billion
- Long-term funding\* amounted to 84%
- Average remaining maturity on long-term funding\* amounted to 4.1 years

\* Funding with maturity beyond 1 year